ECORD AND BRIEFS

No. 15-1189

FILED
FEB 23 2017
OFFICE OF THE CLERK
SUPREME COURT, U.S.

IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICUS CURIAE* NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF RESPONDENT ON THE FIRST QUESTION PRESENTED

WALTER E. HANLEY, JR.
President
NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION
ANDREWS KURTH KENYON LLP
One Broadway
New York, New York 10004
(212) 425-7200

NOAH M. LEIBOWITZ
Counsel of Record
JONATHAN C. SANDERS
SIMPSON THACHER & BARTLETT LLP
425 Lexington Avenue
New York, New York 10017
(212) 455-2000
nleibowitz@stblaw.com

Attorneys for Amicus Curiae
(For Additional Counsel See Inside Cover)

270319

CHARLES R. MACEDO
DAVID P. GOLDBERG
CO-CHAIR, COMMITTEE ON
AMICUS BRIEFS, NYIPLA
AMSTER, ROTHSTEIN
& EBENSTEIN LLP
90 Park Avenue
New York, New York 10016
(212) 336-8000

ROBERT J. RANDO
THE RANDO LAW FIRM P.C.
6800 Jericho Turnpike,
Suite 120W
Syosset, New York 11791
(516) 799-9800

MICHAEL KEENAN
HINMAN, HOWARD & KATTELL, LLP
80 Exchange Street
Binghamton, New York 13902
(607) 231-6927

Attorneys for Amicus Curiae

TABLE OF CONTENTS

Page

TABLE OF CONTENTS i

TABLE OF CITED AUTHORITIES iii

STATEMENT OF INTEREST 1

SUMMARY OF ARGUMENT 2

ARGUMENT 7

I. *MALLINCKRODT* SHOULD NOT BE OVERTURNED. 7

A. *Mallinckrodt* Is Firmly Rooted in the Language of the Patent Act. 8

1. The Severability of Patent Rights Inherently Permits Patentees to Impose Reasonable Restrictions on Resale or Reuse of a Patented Item. 8

2. Congress Authorized Patentees to Separately Convey or Enforce Their Rights at Different Levels of the Distribution Chain. 11

B. *Mallinckrodt* Is Supported by This Court's Precedent. 12

Table of Contents

Page

1. *Mallinckrodt* Is Consistent with *Quanta*. 12

2. Longstanding Precedent Supports Upholding *Mallinckrodt*. 17

   a. There Is No Principled Distinction Between Sales and Licenses in This Context. 21

   b. Common Law Principles Against Restraints on Alienation Do Not Compel a Different Result. 24

   c. Arguably Broader Statements in the Court's Early Exhaustion Decisions Do Not Require the Application of Exhaustion to Conditional Sales. .28

C. *Mallinckrodt* Provides a Predictable, Meaningful Marketplace Rule. 31

CONCLUSION 35

TABLE OF CITED AUTHORITIES

Page

CASES

Adams v. Burke,
84 U.S. (17 Wall.) 453 (1873) ..... *passim*

Astoria Fed. Sav. & Loan Assn. v. Solimino,
501 U.S. 104 (1991) 25

Bement v. National Harrow Co,
186 U.S. 70 (1902) 5, 12, 19

Bloomer v. McQuewan,
56 U.S. (14 How.) 539 (1853) ..... *passim*

Bloomer v. Millinger,
68 U.S. (1 Wall.) 340 (1863) 17, 31

Bowman v. Monsanto Co.,
133 S. Ct. 1761 (2013) 19

Connecticut Nat'l Bank v. Germain,
503 U.S. 249 (1992) 26

Dawson Chem Co. v. Rohm & Haas Co.,
448 U.S. 176 (1980) 11

eBay Inc. v. MercExchange, L.L.C.,
547 U.S. 388 (2006) 28

Cited Authorities

Page

General Talking Pictures Corp. v. Western Elec. Co., 304 U.S. 175 (1938) ..... *passim*

General Talking Pictures Corp. v. Western Elec. Co., 305 U.S. 124 (1938) ..... *passim*

Henry v. A.B. Dick, 224 U.S. 1 (1912) 27

Ill. Tool Works Inc. v. Indep. Ink, Inc., 547 U.S. 28 (2006) 32

Jesinoski v. Countrywide Home Loans, Inc., 135 S. Ct. 790 (2015) 25

Keeler v. Standard Folding Bed Co., 157 U.S. 659 (1895) 29, 30, 31

Kimble v. Marvel Entm't, LLC, 135 S. Ct. 2401 (2015) 28-29, 33, 34

King Instruments Corp. v. Perego, 65 F.3d 941 (Fed. Cir. 1995) 23

Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351 (2013) 27, 28

Cited Authorities

Page

Lexmark Int'l, Inc. v. Impression Prods.,
816 F.3d 721 (Fed. Cir. 2016) 9

Mallinckrodt, Inc. v. Medipart, Inc.,
976 F.2d 700 (Fed. Cir. 1992) ..... *passim*

Mercoid Corp v. Mid-Continent Investment Co.,
320 U.S. 661 (1944) 11

Mercoid Corp v. Minneapolis-Honeywell Regulator Co.,
320 U.S. 680 (1944) 11

Mitchell v. Hawley,
83 U.S. (16 Wall.) 544 (1872) ..... *passim*

Motion Picture Patents,
243 U.S. 502 (1917) 15

Payne v. Tennessee,
501 U.S. 808 (1991) 33

Quanta Computer, Inc. v. LG Elecs., Inc.,
553 U.S. 617 (2008) ..... *passim*

Randall v. Sorrell,
548 U.S. 230 (2006) 33

Rubin v. United States,
449 U.S. 424 (1981) 26

Cited Authorities

Page

Studiengesellschaft Kohle mbH v. Northern Petrochem. Co., 784 F.2d 351 (Fed. Cir. 1986) 22-23

Tenet v. Doe, 544 U.S. 1 (2005) 25

U.S. v. Univis Lens Co., 316 U.S. 241 (1942) 16, 17

Watson v. United States, 552 U.S. 74 (2007) 34

CONSTITUTION, STATUTES, AND RULES

U.S. Const. art. 1, § 8, cl. 8 28

17 U.S.C. § 109(a) 27, 28

17 U.S.C. § 154 23

35 U.S.C. § 154(a) 20, 26, 27, 28

35 U.S.C. § 271(a) ..... *passim*

35 U.S.C. § 271(c) 11

35 U.S.C. § 271(d) 11, 33

Sup. Ct. R. 37.3(a) 1

Page

Sup. Ct. R. 37.6 1

OTHER SOURCES

Brief for Petitioner Impression Products, Inc. . . . *passim*

Petition for Certiorari. 15, 16, 21

STATEMENT OF INTEREST[1]

The New York Intellectual Property Law Association ("NYIPLA"or "the Association") is a professional association of more than 1,100 attorneys whose interests and practices lie in the area of patent, copyright, and other intellectual property law. It is one of the largest regional intellectual property bar associations in the United States. The Association's members include a diverse array of attorneys specializing in patent law, and a substantial percentage of the Association's member attorneys participate actively in patent litigation, representing both patent owners and accused infringers. Association members also frequently engage in patent licensing matters on behalf of their clients, representing both licensors and licensees.[2]

The Association thus brings a well-educated and distinct perspective to the issues in this appeal. In particular, the Association's members have a strong interest in this case because their day-to-day activities depend on the consistently-applied and longstanding principles of patent exhaustion. Because of the vital and increasing importance of patents and patent licensing in a

---

1. Pursuant to Sup. Ct. R. 37.6, the Association and its counsel represent that they have authored the entirety of this brief and that no person other than *amicus curiae* or its counsel has made a monetary contribution to the preparation or submission of this *amicus* brief.

2. Pursuant to Sup. Ct. R. 37.3(a), Petitioner's written consent to this filing has been submitted herewith. Respondent consented to the filing of *amicus curiae* briefs in support of either party or neither party in a docket entry dated December 20, 2016.

complex global economy, the Association and its members have an especially strong interest in ensuring that their reasonable expectations regarding patent exhaustion principles continue to be consistently applied to the sale of patented items and to the licensing of patent rights.[3]

SUMMARY OF ARGUMENT

1. The first question presented on this appeal is whether a conditional sale, specifying post-sale restrictions on a patented item's reuse or resale, avoids application of the patent exhaustion doctrine if the condition is not followed. On this question, the Association believes that the answer should be "yes"[4]

---

3. The arguments set forth in this brief were approved on February 13, 2017, by an absolute majority of the officers and members of the Board of Directors of the Association, including any officers or directors who did not vote for any reason, including recusal, but do not necessarily reflect the views of a majority of the members of the Association, or of the law or corporate firms with which those members are associated. After reasonable investigation, the Association believes that no officer or director or member of the Amicus Briefs Committee who voted in favor of filing this brief, nor any attorney associated with any such officer, director, or committee member in any law or corporate firm, represents a party in this litigation. Some officers, directors, committee members, or associated attorneys may represent entities, including other *amici curiae*, which have an interest in other matters that may be affected by the outcome of this litigation.

4. The Association does not take a position on the second question presented, whether extraterritorial sales may *never* result in exhaustion of U.S. patent rights. However, as set forth in its *amicus* brief submitted to the Federal Circuit, a uniform rule that a patentee may avoid exhaustion by placing reasonable post-sale conditions, whether the sale occurs here or abroad, could resolve both issues presented on this appeal.

Nearly a decade ago, this Court in *Quanta*[5] addressed an unconditional sale by a licensee, pursuant to a license agreement that did not grant any license to third-party customers who then combined the patented technology with unpatented components. The patentee was also required under a separate agreement to give customers notice of that limitation. Notwithstanding this contractual provision, the Court applied longstanding exhaustion law to find that "[n]othing in the License Agreement restrict[ed the licensee's] right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-[licensed] parts,"and therefore that the initial authorized, *unconditional* sale by the licensee exhausted the patentee's downstream enforcement rights.[6]

Despite numerous invitations to do so, the Court declined to overturn or even address in *Quanta* the Federal Circuit's decision more than a decade before that in *Mallinckrodt*.[7] There, the Federal Circuit had similarly followed this Court's lengthy history of assessing the conditional or unconditional nature of each sale in determining exhaustion, holding that, where a valid restriction *is* communicated at the time of sale, and where it does not violate independent legal obligations (such as the antitrust laws), that restriction will avoid downstream exhaustion if it is violated. The court thus stated broadly that, "[i]f the sale . . . was validly conditioned under the

---

5. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (hereinafter "*Quanta*").

6. *Id.* at 636-637.

7. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992) (hereinafter "*Mallinckrodt*").

applicable law such as the law governing sales and licenses, and if the restriction on reuse was within the scope of the patent grant or otherwise justified, then violation of the restriction may be remedied by [an] action for patent infringement."[8]

It is the Association's view that, as it did in *Quanta*, the Court should again decline to overturn *Mallinckrodt* here. Both *Quanta* and *Mallinckrodt* follow a framework that is sensible, that is grounded in this Court's century-old exhaustion precedents, and that has long provided stable, consistent exhaustion principles for the lower courts to follow. Indeed, as we address at the outset below, these decisions are consistent with the language and history of the Patent Act, which evinces Congress's intent to grant patentees flexibility in determining how to separately convey, license, and/or enforce their patent rights against different levels of the distribution chain.

A. First, both this Court's decision in *Quanta* and the Federal Circuit's earlier decision in *Mallinckrodt* are faithful to the structure and history of the Patent Act. The statute's use of the disjunctive "or"in describing the acts that, absent authority, can give rise to patent infringement clearly conveys that a patentee is permitted to authorize some—but not all—of the specified acts, such as making, selling, using, and the like. Overturning *Mallinckrodt* to find that a patentee may not impose *any* restrictions on resale or reuse is inconsistent with the terms of the statute.

The history of the Patent Act also confirms that a patentee is permitted to separately convey or enforce

8. *Id.* at 709.

its rights. The 1952 Act expressly permitted recovery for both direct and contributory infringement, and the 1988 amendments further made clear that a patentee may condition the sale or license of patent rights on the acquisition or license of other products or rights, absent certain circumstances relating to market power. Taken together, these provisions are consistent with, and give life to, this Court's early exhaustion decisions giving a patentee flexibility over how to convey or enforce the separate rights to make, use, and sell a patented invention.

B. Second, *Mallinckrodt* is consistent with this Court's recent decision in *Quanta*, as well as a number of earlier Supreme Court decisions. Far from silently overturning *Mallinckrodt*, *Quanta* does not even address post-sale restrictions that render subsequent sales not "authorized"under the Patent Act. Indeed, this Court rejected numerous express requests to overturn *Mallinckrodt*, finding instead simply that the admittedly *un*conditional sale in *Quanta* resulted in exhaustion under settled law. Moreover, *Quanta* repeatedly cited and relied upon the unconditional nature of the sale in reaching that result, suggesting that the presence of a post-sale condition would have been relevant to the exhaustion analysis.

Quanta follows a number of Supreme Court cases that expressly based the exhaustion inquiry on whether an unconditional sale occurred. Dating back more than a century, decisions such as *Mitchell v. Hawley*,[9] *Adams v. Burke*,[10] and *Bement v. National Harrow Co.*[11] consistently

9. 83 U.S. 544 (1872).

10. 84 U.S. (17 Wall.) 453 (1873).

11. 186 U.S. 70 (1902).

examined whether any otherwise valid condition had been placed on the initial sale. The Court perhaps most clearly articulated this principle in the *General Talking Pictures*[12] cases, holding there that a licensee sale subject to valid, communicated restrictions precludes the application of exhaustion when the restrictions are violated.

C. Finally, the contrary rule advocated by the dissent below and by Petitioner here would result in an untenable distinction between the sale and licensing of a patented item. Under this framework, a patentee would indisputably be permitted to license the right to make and sell a patented item subject to conditions on resale or reuse (for example, under *General Talking Pictures I and II*, as noted above), and to enforce those conditions against a subsequent user or reseller. But the same patentee would not *itself* be permitted to sell the same patented item, subject to the same conditions, because *any* sale would always exhaust all of its rights. This distinction finds no basis in the relevant statutory or case law history, and it would leave the curious result that patentees would have more secure rights in licensing others to make or sell a patented product than in making or selling it themselves.

Unsettling decades of established law would also potentially create turmoil and chaos in existing market practices. While Petitioner and the dissent below cite a series of speculative harms that could ensue from retaining *Mallinckrodt*, there is little evidence that these

---

12. *General Talking Pictures Corp. v. Western Elec. Co.*, 304 U.S. 175 (hereinafter "*General Talking Pictures I*"), *modified on reh'g*, 305 U.S. 124 (1938) (hereinafter "*General Talking Pictures II*").

predicted horribles have occurred or will occur. But just as importantly, the contrary interest in maintaining a stable, sensible framework for determining patent exhaustion counsels strongly against undermining case law that dates back well over a century. In addition to providing a consistent, coherent framework for lower courts to apply, this settled precedent has advanced other important public policy goals such as permitting lower prices for consumers who do not need the right to resell or reuse a device, as well as allowing manufacturers to appropriately regulate modifications or reuses of patented items that could harm their reputation or business.

ARGUMENT

I. *MALLINCKRODT* SHOULD NOT BE OVERTURNED.

Respondent Lexmark International, Inc. (hereinafter "Lexmark"or "Respondent") makes and sells printers and toner cartridges for use in those printers. Respondent sells cartridges under two models, one at full price for unrestricted use by the customer, and the other under a single-use/no-resale restriction, for a discount. Petitioner Impression Products, Inc. (hereinafter "Impression"or "Petitioner") acquired single-use cartridges that had been purchased from Lexmark and resold them in violation of the single-use condition, after making certain technical modifications that permitted multiple uses.

The district court below found that, *inter alia*, Lexmark could not enforce its patent rights against Impression, because Lexmark's initial authorized sale of each patented cartridge exhausted all of its rights in

that cartridge, even if the otherwise valid single-use/no resale restriction were not ultimately followed. The Federal Circuit reversed, declining to overturn its twenty-five-year-old decision in *Mallinckrodt* that an otherwise lawful, valid condition, clearly communicated to the buyer at the time of sale, may be enforced and does not result in exhaustion with respect to any unauthorized resales or reuses.

The question presented here requires this Court to decide whether *any* sale by a patentee extinguishes all of the patentee's rights in the article, or whether a patentee avoids exhaustion with respect to unauthorized resales or reuses by imposing otherwise lawful post-sale restrictions at the time of sale. As set forth below, the propriety of permitting a patentee to impose lawful post-sale restrictions is supported by the text and structure of the Patent Act; by *Quanta* and other longstanding precedent from this Court; and by commonsense market considerations and principles.

A. *Mallinckrodt* Is Firmly Rooted in the Language of the Patent Act.

1. The Severability of Patent Rights Inherently Permits Patentees to Impose Reasonable Restrictions on Resale or Reuse of a Patented Item.

The majority below discussed at length the structure of the rights that 35 U.S.C. § 271(a) grants to patentees. In so doing, the court correctly recognized that Section 271(a) establishes liability for "whoever without authority makes, uses, offers to sell, or sells any patented

invention."(Emphasis added). The statute's use of the disjunctive "**or**"indicates that a patentee may grant "authority"to exercise only ***some*** of the rights conferred by a patent, but not others. *See, e.g.*, Appendix ("App."), 20a.[13]

Thus, as both the statute and pre-Patent Act case law make clear, "exhaustion doctrine in the Patent Act must be understood as an interpretation of § 271(a)'s 'without authority' language."*Id.*, 24a; *see also id.* (noting that "nothing in § 271(a) constrains the patentee's choices about to whom to grant the required authority, if anyone, or about which acts (of manufacture, use, sale, etc.) to authorize, if any"); *id.*, 38a (noting that the bundle of sticks granted by the Patent Act "can generally be transferred separately"and citing pre-Patent Act case law in support of that principle).

Indeed, the severability of patent rights has long been recognized by this Court. *See, e.g., Mitchell*, 83 U.S. at 548 (discussing "[s]ales . . . made by the patentee *with or without conditions*"and declining to apply exhaustion where purchaser used device past temporal limitation provided in license agreement) (emphasis added). In other words, by enabling a patentee to transfer some, but not all, of its rights, the structure of the Patent Act inherently permits a patentee to impose restrictions (*i.e.*, to retain some of its rights under the patent) when it makes a sale. Any argument that a sale by the patentee is a *per se* transfer of all rights to the purchaser thus conflicts with the language of Section 271(a).

---

13. *Lexmark Int'l, Inc. v. Impression Prods.*, 816 F.3d 721, 732 (Fed. Cir. 2016). For convenience, all further references to the Federal Circuit's decision below will be to the Appendix submitted by Petitioner in this appeal.

Notwithstanding this, the dissent below argues that the "whoever without authority makes, uses, offers to sell, or sells"language is not inconsistent with applying exhaustion to every patentee sale. That is because, according to the dissent, "[t]he focus of patent exhaustion is not whether the *buyer* has been expressly or impliedly authorized to sell or use a product in a certain way after the sale,"but rather "whether the *seller* had authorization to make a sale."App., 119a-120a (emphasis in original).

The Association respectfully submits that this interpretation is in tension not only with the many decisions of this Court permitting conditional sales (as discussed *infra*), but also with the statutory language itself. Nothing in the statute confines the authority granted by the patentee to an initial sale; to the contrary, as explained above, the Patent Act separately requires authorization to make any "sale"**or** "use"of a patented device, among other things. *See generally* 35 U.S.C. § 271(a). If any such act violates an express condition placed on the initial sale by the patentee, then, by definition, the reseller or ultimate end user has committed the act "without authority,"giving rise to liability under the Patent Act. *See, e.g.*, App., 22a ("Nothing in the Act supersedes the § 271 requirement of authority from the patentee before a person in Impression's position may engage in the itemized acts without infringing"). In other words, the statutory text is inconsistent with the dissent's view that only the initial sale need be "authorized"for exhaustion to apply to all subsequent conduct by a customer or reseller.

2. Congress Authorized Patentees to Separately Convey or Enforce Their Rights at Different Levels of the Distribution Chain.

The legislative history of the Patent Act further makes clear that a patentee may separately convey or enforce its rights with respect to different types of infringing acts. In 1952, Congress authorized claims for contributory infringement in Section 271(c), providing that "[w]hoever offers to sell or sells within the United States or imports into the United States a component . . . constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such [a] patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer." Sections 271(d)(1)-(3) then expressly allowed infringement claims based on direct or contributory infringement. *See* 35 U.S.C. § 271(d)(1)-(3).

In 1988, Congress added two additional subparts to Section 271(d), providing that a patent owner would not be barred by a patent misuse defense from securing relief for infringement because, *inter alia*, it conditioned a license or sale on the acquisition of a separate license or the purchase of a separate product, absent certain market power. 35 U.S.C. § 271(d)(4)-(5). As this Court noted in *Dawson Chem Co. v. Rohm & Haas Co.*, 448 U.S. 176, 203-212 (1980), the legislative history leading up to the 1952 language shows that Congress was directly overruling the *Mercoid* cases,[14] to the extent that those cases recognized

14. *Mercoid Corp v. Mid-Continent Investment Co.*, 320 U.S. 661, 668-669 (1944) and *Mercoid Corp v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944).

certain patent misuse or antitrust defenses to contributory infringement.

By authorizing a patentee to bring a claim for either direct or contributory infringement, as well as to make otherwise proper conditional sales, Congress expressed an intent to give patentees control and flexibility over whether and how to sell patented devices and enforce their patent rights, as suggested in a number of early Supreme Court decisions such as *Mitchell*, *Adams*, and *Bement* (discussed *infra*). Overturning *Mallinckrodt* would thwart this apparent legislative intent by making it impossible for a patentee to place meaningful restrictions on resale or reuse and preserve downstream rights.

B. *Mallinckrodt* Is Supported by This Court's Precedent.

1. *Mallinckrodt* Is Consistent with *Quanta*.

In addition to staying faithful to the words of the Patent Act, *Mallinckrodt* is also consistent with *Quanta* and the earlier exhaustion decisions of this Court.

The Federal Circuit's decision below thoroughly reviewed the facts underlying the dispute in *Quanta* and this Court's analysis. Based on its review, the majority properly found that *Quanta* "did not involve a patentee's sale at all, let alone one subject to a restriction or, more particularly, a single-use/no-resale restriction."App., 30a. Rather, "*Quanta* involved a sale made (to computer maker Quanta) not by the patentee (LGE) but by a manufacturing licensee (chip maker Intel), which the patentee had authorized to make and sell the articles at issue (chips

for installation in computers that would then be covered by LGE's patents)."*Id.*

Indeed, *Quanta* did not include any post-sale restrictions in the first instance, as this Court noted prominently on several occasions:

> *Nothing in the License Agreement restricts Intel's right to sell* its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts. It broadly permits Intel to "make, use, [or] sell"products free of LGE's patent claims . . . . To be sure, LGE did require Intel to give notice to its customers, including Quanta, that LGE had not licensed those customers to practice its patents. But neither party contends that Intel breached the agreement in this respect . . . .
>
> *No conditions limited Intel's authority to sell products substantially embodying the patents.* Because Intel was authorized to sell its products to Quanta, the doctrine of patent exhaustion prevents LGE from further asserting its patent rights with respect to the patents substantially embodied by those products."

Quanta, 553 U.S. at 636-637 (emphasis added) (internal citations omitted).

And the very first basis on which the Court rejected the patentee's argument—that its downstream rights were not exhausted—in the relevant portion of its opinion was a detailed reading of the contracts themselves:

> LGE overlooks important aspects of the structure of the Intel-LGE transaction . . . . [T]he provision requiring notice to Quanta appeared only in the Master Agreement, and LGE does not suggest that a breach of that agreement would constitute a breach of the License Agreement. Hence, *Intel's authority to sell its products embodying the LGE Patents was not conditioned* on the notice or on Quanta's decision to abide by LGE's directions in that notice

Id. (emphasis added). By focusing repeatedly on the specific contractual language and the absence of any restrictions on Intel's right to sell the patented products, this Court hardly suggested that, had there *been* such conditions, it nonetheless would have found them unenforceable. The opinion does not invite that inference.

It is not surprising, then, that the Court's decision in *Quanta* did not criticize or even explicitly address *Mallinckrodt*. This silence is significant for two reasons:

1. The petitioner in *Quanta* and the government both made prominent arguments in favor of overturning *Mallinckrodt*, as the government has for many years. *See, e.g.*, App., 32a.

2. As the Federal Circuit correctly recognized below, the decision under review in *Quanta* had "relied centrally on *Mallinckrodt* and its successor case, *B. Braun Medical*."*Id.*

This Court's decision not to address *Mallinckrodt*, despite these two apparent reasons to do so, is certainly telling.

Nevertheless, the dissent below asserts that the use of the term "unconditional"in *Quanta* and other exhaustion cases is not a reference to the absence of conditions on resale or reuse, but rather an archaic reference "to a sale in which title passes."App., 114a-115a; *see also* Petition for Certiorari (hereinafter "Pet."), 2016 WL 1130030, at *15-*16 (arguing same); Brief for Petitioner (hereafter "Pet. Br.") at 33 (same). This is not tenable. The Court in *Quanta* never suggested that its repeated references to "conditions"or "restrictions"related only to the transfer of title. Rather, as set forth above, the Court stated on several occasions that Intel's authority to sell was not "conditioned"on, for example, providing the notice to customers required in its license agreement with LGE, or on anything else. *Quanta*, 553 U.S. at 636-37.[15]

---

15. The dissent suggests that the *Quanta* Court expressed indirect support for this view, because the *Quanta* decision notes that *Motion Picture Patents* "reiterated the rule that 'the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it,'"suggesting that an "unconditional" sale could still carry "restrictions." App., 116a (quoting *Quanta*, 553 U.S. at 626). But not even *Motion Picture Patents* (which prohibited tie-ins, not all conditions on resale or reuse) used "conditional" only in this narrow sense. *See, e.g.*, *Motion Picture Patents*, 243 U.S. at 509 (noting right "to prescribe by notice attached to a patented machine *the conditions of its use*") (emphasis added); *id.* at 515 (describing sales "*subject to any restrictions or conditions as to use or royalty*") (emphasis added).

Petitioner also contends that, independent of *Quanta*, the Court's earlier decision in *Univis*[16] "confirm[s] conclusively that a patentee may not enforce a putative post-sale restriction by means of the patent laws," because the Court there held broadly that "the 'sale of [an article] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article'"— not merely as to specific conditions that run afoul of the antitrust laws. Pet. at *14-*15 (quoting *Univis*, 316 U.S. at 250); *see also* Pet. Br. at 16-20 (same).

But that is not what *Univis* held. Rather, the Court in that case specifically prohibited conditions related to "price fixing," *Univis*, 316 U.S. at 252, declining to find that other, conceivably lawful restrictions defeated exhaustion in that case for the specific reason that they were still inextricably tied to the core price-fixing scheme.[17] The majority below thus properly found that any arguably broader statements in *Univis* are not to the contrary on this issue. *See* App., 54a-55a; *see also Quanta*, 553 U.S. at 627, 631-35 (discussing *Univis* in connection with separate issue of whether product substantially embodied the

---

16. *U.S. v. Univis Lens Co.*, 316 U.S. 241 (1942) (hereinafter "*Univis*").

17. *See generally id.* at 254 ("Appellees stress the features of their licensing system by which it is said they protect the public interest . . . But if we assume that such restrictions might otherwise be valid . . . these features are so interwoven with and identified with the price restrictions which are the core of the licensing system that the case is an appropriate one for the suppression of the entire licensing scheme *even though some of its features, independently established, might have been used for lawful purposes.*") (emphasis added).

patent, not whether an otherwise valid, lawful conditional sale results in exhaustion).

In short, nothing in *Quanta*, *Univis*, or their predecessor cases even contradicts the reasoning in *Mallinckrodt*.

2. Longstanding Precedent Supports Upholding *Mallinckrodt*.

Mallinckrodt is also firmly grounded in this Court's pre-*Quanta* decisions on both patent misuse and patent exhaustion.

Mitchell v. Hawley, one of the Court's earliest exhaustion cases, gave effect to a condition agreed upon by a patentee and its licensee—in that case, a temporal restriction. This Court determined that the limitation should be enforced, despite the fact that the term of the patent had subsequently been extended by Congress for an additional seven years, beyond the limit agreed to by the patentee and licensee. Notwithstanding full awareness of *Bloomer v. McQuewan*[18] and *Bloomer v. Millinger*,[19] the Court determined that the rule of those cases should be applied where "the sale [wa]s absolute, and *without any conditions*,"*Mitchell*, 83 U.S. at 548 (emphasis added), a holding recognized in *Mallinckrodt*. *See* 976 F.2d at 707 (noting *Mitchell*'s acknowledgment that the initial sale "may be made by the patentee with or without conditions").

---

18. 56 U.S. (14 How.) 539 (1853) (hereinafter "*McQuewan*").

19. 68 U.S. (1 Wall.) 340 (1863) (hereinafter "*Millinger*").

Not only has *Mitchell* never been overturned by this Court, but it provided an important foundation for the *General Talking Pictures* decisions upholding field-of-use restrictions. *See, e.g., General Talking Pictures I*, 304 U.S. at 181 ("The Transformer Company could not convey to petitioner what both knew it was not authorized to sell.") (citing *Mitchell*, 16 Wall. at 550); *see also General Talking Pictures II*, 305 U.S. at 127 ("The question of law requiring decision is whether the restriction in the license is to be given effect. That a restrictive license is legal seems clear.") (citing *Mitchell*, 16 Wall. 544). *Mallinckrodt*'s rule that a sale made under an otherwise lawful restriction does not give rise to patent exhaustion is thus simply a natural corollary of the principle that "no one can convey . . . any better title than he owns."*Mitchell*, 83 U.S. at 550.

This Court's decision in *Adams* provides further support for *Mallinckrodt*. There, the Court held that "[t]he right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee."84 U.S. at 456. By definition, permitting a patentee to separately grant sale and use rights permits conditional sales that only authorize some, but not all, of the acts described in the Patent Act, as discussed above. Thus, in *Adams*, the Court found that the ultimate end user who purchased from a licensee was able to use the patented device (a coffin) outside of the territorial restriction imposed by the patentee on the licensee, but only because the use right was passed without condition or restriction. *See id.* at 455-456 (emphasis added); *see also id.* at 456 (holding that, "when [the patented items] are once lawfully made and sold, there is no restriction on their *use* to be *implied*

for the benefit of the patentee or his assignees or licensees) (second emphasis added).[20]

The *General Talking Pictures* cases later provided what is perhaps the strongest mandate for maintaining the rule that was announced in *Mallinckrodt*. In *General Talking Pictures II*, the patentee granted its licensee the right to make and sell certain amplifiers for private or home use, but not for commercial applications such as movie theaters. 305 U.S. at 125-126. Notwithstanding knowledge of this restriction, the licensee sold, and a movie theater bought, amplifiers for the prohibited use. *See id.* at 126. The Court found that, "[a]s the restriction was legal and the amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted . . . . And as [the ultimate end customer] knew the facts, it is in no better position than if it had manufactured the amplifiers itself without a license. It is liable because it has used the invention without license to do so."*Id.* at 127.

Finally, an analogy may be drawn with this Court's recent decision in *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1765-1766 (2013). There, the Court held that the Patent Act enabled patentee Monsanto to prohibit farmers who had purchased its patented seeds from replanting them following an initial harvest. In that case, there was no dispute that Monsanto had sold the seeds to farmers

---

20. *Mallinckrodt* finds still further support in this Court's broad holding in *Bement* that "the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the [patented] article, will be upheld by the courts."186 U.S. at 91.

(either directly or through a third-party), and that the farmers were authorized to use the seeds to plant a crop. *See, e.g., id.* at 1764-1765. Nevertheless, this Court held that Sections 154(a) and 271(a) of the Patent Act permitted Monsanto to restrict farmers from replanting seeds, because replanting would, in effect, enable the farmers to "make"the patented device by growing another crop, which in turn could be replanted indefinitely to produce more seeds. *Id.* at 1766-1767. While not controlling here, this decision again recognized that a patentee can make an "authorized sale"of its patented article for one purpose (such as use for planting), while at the same time restricting the buyer from exercising *other* rights set forth in the Patent Act (such as making the patented seeds through replanting). *See id.*

* * *

The arguments in favor of overruling *Mallinckrodt* attempt to distinguish these cases (among many others) by relying on three principle concepts: (i) a distinction between sales and licenses; (ii) common law principles limiting restraints on alienation; and (iii) certain broad statements by early exhaustion cases that could be read to apply exhaustion to any "authorized"sale (whether conditioned or not). *See, e.g.*, Pet. at 16-17; Pet. Br. at 25-35, 38-41. The Association respectfully submits that none of these arguments survives close examination.

a. There Is No Principled Distinction Between Sales and Licenses in This Context.

First, the argument that a patentee may include restrictions when it licenses its patent—because it still owns the patented invention—but not when it sells items made under the patent elevates form over substance. As the majority explains in its opinion below, "[u]nless granting 'authority' is to be a legal fiction, a patentee does not grant authority by denying it. And that is so for patentee sales and licensee sales alike, *i.e.*, whether the patentee denies the authority to its direct purchaser or to one purchasing through a manufacturing licensee." App., 41a.

That is because, as the Federal Circuit details at length, none of this Court's decisions has drawn a principled distinction between sales and licenses in determining patent exhaustion, and there is no dispute that a patentee may place otherwise valid conditions on sales by its licensee. *See, e.g.*, *id.*, 42a (citing *Mitchell*"s finding that only sales made "without any conditions"trigger exhaustion); *id.*, 43a (discussing holding in *General Talking Pictures* cases that patentee could enforce field of use restrictions through license agreement).[21] A contrary

---

21. *Accord, e.g.*, App., 49a-50a ("As Impression noted at oral argument, it is undisputed that no Supreme Court decision has involved a single-use/no-resale restriction on a patentee's sale and found the restriction insufficient to preserve the patentee's infringement rights . . . . More generally, no Supreme Court precedent denies a patentee the ability to preserve its § 271 rights, by a clear communication of an otherwise-permissible restriction, when it sells the patented article itself, just as the patentee may do, under the *General Talking Pictures* principle, when contracting out the making and selling of the patent article.").

ruling would result in the commercially bizarre outcome that, while a patentee who invests in the making and selling of a patented item cannot place any conditions on its resale or reuse, a non-practicing patentee could contract out manufacture and sale rights to accomplish precisely the same end. *See, e.g.*, *id.* at 45a ("Non-practicing entities would have greater power to maintain their patent rights than practicing entities.").

Petitioner, the dissent below, and various *amici* all respond to this argument by relying on technical distinctions between licensing a patent (under which the patentee retains ownership) and a direct sale by the patentee (in which the patentee transfers title to the patented item). Thus, these arguments assert that, in either case, it is the initial authorized "sale"by someone that triggers exhaustion—either the first sale by the patentee, or the first sale by the licensee. *See, e.g.*, Pet. Br. at 39 ("In fact, as it relates to patent exhaustion, there is no distinction between authorized sales made by patentees and those made by licensees: exhaustion applies to both."); App., 121a-123a (distinguishing *General Talking Pictures* on the ground that, while patentee imposed restriction in license, initial "sale"by licensee was not authorized by patentee because it violated field of use restriction).

This curious distinction finds little basis in the language of the Patent Act, which confers the right to exclude others from practicing the invention during the life of the patent, not the right to use the invention, as the Federal Circuit properly noted below. *See, e.g.*, App., 35a (noting that "the right to use d[oes] not come from the patent statute, which grants only rights to exclude, not rights to practice"); *accord, e.g.*, *Studiengesellschaft*

Kohle mbH v. Northern Petrochem. Co., 784 F.2d 351, 357 (Fed. Cir. 1986) ("The patent grant is not for the right to use the patented subject matter, but only for the right to exclude others from practice of the patented subject matter.") (citing 35 U.S.C. Section 154); *King Instruments Corp. v. Perego*, 65 F.3d 941, 949-50 (Fed. Cir. 1995) ("A patentee need not make, use, or sell an invention to gain patent protection. Upon proper disclosure of a protectable invention, a patentee acquires the right to exclude others from making, using, or selling the invention.").

Because the rights afforded by Congress are to prevent others from practicing rather than to practice the patent oneself, the ability to prevent unauthorized downstream use should not turn on the consideration of whether a patentee has licensed its rights or chosen to sell the patented device directly. Either way, the patentee maintains the right to *exclude* others from any unauthorized manufacture, sale, use, and the like, whether by conditions imposed by the patentee directly or through its licensee.

This case precisely illustrates the point. Lexmark wishes to sell certain printer cartridges at a discount, subject to a "single-use/no-resale"restriction. Under the rule proposed by Petitioner and the dissent, it could never do so directly, forfeiting the ability to engage in differential pricing and other practices with potential market benefits for consumers. But had Lexmark simply licensed out the manufacture and sale of these cartridges to a third-party, it could have accomplished what Petitioner and the dissent believe it could not do on its own: forbidding sales that did not satisfy the very same restrictions. Absent any firm basis in this Court's precedent or the Patent Act, there is simply no logical or doctrinal basis to adopt this rule.

b. Common Law Principles Against Restraints on Alienation Do Not Compel a Different Result.

A related argument in favor of exhaustion is made here and below based on common law teachings against restraints on the alienation of goods. For example, numerous briefs cite "Lord Coke's 17th century observation"that, if a man sells "his whole interest"in a horse, any condition imposed on the sale is void, because the seller has already transferred his entire interest therein. *See, e.g.*, Pet. Br. at 45-46.

But as the majority correctly explains below, these distant common law teachings "described what British courts, *in the absence of an overriding legislative prescription*, would treat as an impermissible anti-alienation restriction on a seller's disposition of 'his whole interest' in a chattel."App., 57a (emphasis added); *see also id.* at 57a ("Lord Coke's quote does not purport to address the effect of a legislative prescription of broad rights to control sale and use."). Indeed, while Petitioner argues that the "common law doctrine"of patent exhaustion should bar a patentee from imposing conditions on sales, Pet. Br. at 13-14, Petitioner's argument fails to rebut the majority's finding that "Lord Coke's formulation . . . [never] suggested that a judicial rule would override specific legislative grants." App., 56a.

A specific legislative grant is precisely what authorizes a patentee to impose otherwise lawful conditions when it sells a patented article. The majority below explains that "Sections 154(a) and 271(a) legislatively establish a patentee's rights over sale and use . . . [and] grant those

rights separately."[22] App., 57a. And there is no doubt that, as this Court's longstanding precedent has held, Congress is free to (and frequently does) enact legislation to modify the common law. *See, e.g., Jesinoski v. Countrywide Home Loans, Inc.*, 135 S. Ct. 790, 793 (2015) ("this is simply a case in which statutory law modifies common-law practice"); *Astoria Fed. Sav. & Loan Assn. v. Solimino*, 501 U.S. 104, 108 (1991) ("Congress is understood to legislate against a background of common-law adjudicatory principles"and to incorporate them, "except when a statutory purpose to the contrary is evident") (internal quotations and citations omitted); *see also, e.g., Tenet v. Doe*, 544 U.S. 1, 11 (2005) (Stevens, J., concurring) (inviting Congress to "modify the federal common-law").

Here, the majority correctly found that Congress "has long deemed it important to incentivize creation and disclosure through grants to [patentees] of rights to exclude others for a time,"and that Congress "expressly d[id] so regarding patent rights . . . [by] specifically giving separate rights to exclude others from making, using, selling, etc."App., 58a. Thus, "[t]hat overriding legislative prescription removes the patented-article sale

---

22. The majority below also correctly notes that the observation of Lord Coke invoked in support of overruling *Mallinckrodt* did not reference England's Statute of Monopolies, "to which American patent law has often been traced."App., 57a-58a and n.13 and authorities cited. Moreover, the Federal Circuit cites numerous contrary authorities recognizing that other policy goals may dictate a departure from Lord Coke's view when appropriate, including general statements regarding the American legal system that restrictions on sale are generally *enforced* where they are not "regarded as an unlawful restraint of trade or in violation of public policy."*See* App., 57a-58a (citing a litany of authorities).

from the scope of Lord Coke's 1628 description of his country's general judicially fashioned property law."*See id.*, 58a-59a. As discussed above, this is evident in the Patent Act's grant of the right to separately exclude others from making, selling, or using the patented invention "without authority,"which has no parallel in any common law principles regarding control over downstream use once a product was sold. *See* 35 U.S.C. Section 271(a); *see also* 35 U.S.C Section 154(a) ("Every patent shall contain . . . a grant to the patentee . . . of the right to exclude others from making, using, offering for sale, or selling the invention . . . .").

Finally, this legislative prescription enabling patentees to sell "different sticks in the bundle of rights,"App., 57a, undermines Petitioner's position that the decision below enables patentees to make an "end-run around exhaustion,"because it renders exhaustion "optional."Pet. Br. at 14. To the contrary, the majority's decision below, as well as this Court's own prior cases, adhere to the language of the statute requiring separate "authority"for each otherwise infringing act. *See generally* App., 20a-25a; *see also Connecticut Nat'l Bank v. Germain*, 503 U.S. 249, 253-254 (1992) ("We have stated time and again that courts must presume that a legislature says in a statute what it means and means in a statute what it says there . . . When the words of a statute are unambiguous . . . 'judicial inquiry is complete.'") (quoting *Rubin v. United States*, 449 U.S. 424, 430, 66 L. Ed. 2d 633, 101 S. Ct. 698 (1981)). Any dissatisfaction with the language of the Patent Act must be directed to Congress, not to the courts. *See, e.g., Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2409 (2015) (noting that "judicially created doctrine[s]"derived from statutory interpretation

are "balls tossed into Congress's court, for acceptance or not as that branch elects").

Nor does this Court's recent decision in *Kirtsaeng v. John Wiley & Sons, Inc.*[23] compel a different conclusion. In *Kirtsaeng*, this Court considered whether Section 109(a) of the Copyright Act—a codification of the common law "first sale"doctrine—applies to sales made outside the United States. *See Kirtsaeng*, 133 S. Ct. at 1354-1356. In that context, this Court relied on Lord Coke's teachings because, in enacting Section 109(a) of the Copyright Act, Congress was codifying a legal principle that had been "previously governed by the common law."*Id.* at 1363-1364. By contrast, as set forth above and as the Federal Circuit explains below in this case, in enacting Sections 154(a) and 271(a), Congress made a choice to grant patentees statutory rights that *depart* from the common law's distaste for restraints on alienation of property. App., 57a-59a (quoting century-old analysis from England's Privy Council that distinguished between "the general doctrine of absolute freedom of disposal of chattels of an ordinary kind"and "the respect paid and the effect given to those conditions of transfer of the patented article which the law, *laid down by statute*, gave the original patentee a power to impose") (emphasis in original) (internal quotations and citations omitted) (also quoted in *Henry v. A.B. Dick*, 224 U.S. 1, 42-43 (1912)).[24]

---

23. 133 S. Ct. 1351, 185 L. Ed. 2d 392 (2013).

24. Although this Court in *Motion Picture Patents* overruled *A.B. Dick* to the extent that *A.B. Dick* permitted tie-in arrangements, the majority below correctly notes that this Court has never ruled that "*all* restrictions on a patentee's sale were ineffective to preserve the patentee's patent-law rights."App., 53a-54a (emphasis in original).

In sum, because the rights that Sections 154(a) and 271(a) provide to patentees were not "previously governed by the common law,"but instead were "laid down by statute,"*see id.*, there is no basis to "presume that Congress intended to retain the substance of the common law"with respect to those rights. *Cf. Kirtsaeng*, 133 S. Ct. at 1363-1364 (holding that Copyright Act's Section 109(a) reflects common law principles and should thus be enforced in accordance with those principles). In rejecting the argument that common law restraints on the alienation of property should be written into the provisions of the Patent Act, the majority did not, as the dissent below argues, "ignore traditional legal principles to fashion rules 'unique to patent disputes.'"App., 117a (quoting *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393, 126 S. Ct. 1837, 164 L. Ed. 2d 641 (2006)). Rather, the majority straightforwardly applied the statutory structure that Congress has established here to further innovation. App., 58a-59a; *see generally* U.S. Const. art. 1, § 8, cl. 8.

c. Arguably Broader Statements in the Court's Early Exhaustion Decisions Do Not Require the Application of Exhaustion to Conditional Sales.

The third principal line of argument advanced by Petitioner and the dissent below is that portions of this Court's early exhaustion decisions (including some of the same cases cited above) use language arguably supporting the broader application of exhaustion, regardless of any post-sale restrictions. *See, e.g.*, App., 107a-109a (discussion by dissent of broad statements in cases such as *Bloomer v. McQuewan*, *Hawley*, *Adams*, and *Keeler v. Standard*

Folding Bed Co.,[25] that an initial authorized sale passes the patented item outside the limits of the patent monopoly); Pet. Br. at 25-35 (summarizing same decisions).

The problem with this argument is that none of these decisions applied exhaustion where a reseller or user failed to follow an otherwise valid condition. For example, in *Bloomer v. McQuewan*, the patentee licensed the right to make certain planting machines during the term of the patent (originally fourteen years), which, through a series of assignments, ultimately passed to the defendants. The Court held in this context that Congress's subsequent extension of the patent term by statute did not interfere with the contractual rights agreed by the parties, noting that the right to use the products had passed "*without any limitation* as to the time for which they were to be used."*Bloomer*, 55 U.S. at 553 (emphasis added). Under these circumstances, it is not surprising that the Court applied exhaustion to the unrestricted use rights at issue.

Similarly, in *Mitchell v. Hawley*, as discussed above, the Court actually *enforced* a temporal limitation even after the patent term was extended. *See Mitchell*, 83 U.S. at 548, 550-551. Thus, while the dissent quotes a separate passage of the opinion providing that, "when [the patented article] rightfully passes from the patentee to the purchaser [it] ceases to be within the limits of the monopoly,"App., 107a (quoting *Mitchell*, 83 U.S. at 548), that hardly supports the dissent's position, given that the case itself declined to apply exhaustion to a conditional sale. The same is true of *Adams*. *See, e.g.*, *Adams*, 84 U.S. at 455-457 (while dissent cites passage providing that "the

25. 157 U.S. 659 (1895) (hereinafter "*Keeler*").

sale by a person who has the full right to make, sell, and use [] a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time,"title had passed in that case without restriction or condition on use, leading to Court's holding that "no restriction"should be "*implied*") (emphasis added).

Finally, in *Keeler*, a regional assignee of patent rights on certain standard folding beds sued a customer who had purchased the beds from a different regional assignee, subject to no restriction or condition on use, and then brought them into the plaintiff's territory. *Keeler*, 157 U.S. at 660. The Court followed *Adams* and *Mitchell* to again find that, absent any restriction on the initial sale, the patentee had no further right to restrict the customer's use—including where he transported the product—expressly noting that "[w]hether a patentee may protect himself and his assignees by special contracts brought home to the purchasers *is not a question before us."Id.* at 666 (emphasis added).

Thus, in cases cited by Petitioner, the dissent, and *amici*, there either *was no conditional sale* with respect to the use at issue (for example, in the *Bloomer* cases, *Adams*, and *Keeler*), or the Court *enforced* otherwise lawful restrictions and declined to apply exhaustion when the restrictions were not followed (for example, in *Mitchell*). This history does not support a decision that an initial authorized sale—conditional or not—always results in exhaustion.

To be clear, the Association agrees that, once an article of commerce has passed lawfully into commerce without any further restriction or condition, exhaustion

can be applied, as it was in *Adams*. Conversely, if the article passed into commerce only by violating a lawful restriction, then that article remains without authority, and exhaustion should not apply.

C. *Mallinckrodt* Provides a Predictable, Meaningful Marketplace Rule.

Finally, arguments in favor of overturning *Mallinckrodt* fail to account for the market reality that a patentee can monetize its patent through either direct manufacture and sale or contracting those activities out to a licensee. Recognizing this reality, the majority below correctly rejected a formalistic sale/license distinction that would be an "extraordinary doctrinal consequence"with little or no support in the Patent Act, the decisions of this Court, or any real-world economic consequence. *See, e.g.*, App., 34a.

As noted above, a contrary finding would result in the curious rule that a patentee can impose restrictions on downstream use if it acts through a licensee, but cannot impose the same restrictions if it sells a patented device directly. That is because there is no dispute that this Court "squarely held in the *General Talking Pictures* case that a patentee could preserve its infringement rights against unauthorized uses by restricting manufacturing licensees' authority to sell for such uses."App., 43a. Rather than endorsing a nationwide rule that creates an illogical (and easily avoidable) distinction between sales and licenses, the majority below instead correctly determined that "[t]here is no good reason that a patentee that makes and sells the articles itself should be denied the ability that is guaranteed to a non-practicing-entity patentee."*Id.*at 41a.

Petitioner, the dissent, and numerous *amici* articulate a contrary public policy position based on a parade of horribles that, to date, does not appear to have occurred in any meaningful way. For example, Petitioner argues that upholding *Mallinckrodt* could effectively foreclose secondary markets for patented goods such as used car sales, repairing personal electronic items, or setting the prices at which those products could be resold. Pet. Br. at 41-42.

First and foremost, as the majority properly found below, there has been no evidence of widespread market problems during the many decades in which conditional sales have been permitted (including during the twenty-five years that have elapsed since *Mallinckrodt* was decided). *See* App., 60a ("*Mallinckrodt* has been the governing case law since 1992 . . . . And yet we have been given no reliable demonstration of wide spread problems not being solved in the marketplace."). While public policy concerns can of course appropriately play a "limited"role in crafting new judicial rules, *see id.* at 97a, those concerns necessarily have less force when there is very little real-world evidence or logic to support them.

Just as importantly, some of the potential evils identified by Petitioner, such as fixing downstream prices, are already governed by the antitrust laws. For example, the majority below notes that specific practices such as vertical price-fixing or tying arrangements have already been addressed by numerous decisions of this Court, as well as by Congress itself in some cases. *See, e.g., id.*, 62a (noting decisions such as *Illinois Tool Works* and progeny directed to potentially anticompetitive practices, as well as adoption of § 271(d)(5) with respect

to tying arrangements). Moreover, the Federal Circuit's commonsense requirement that any post-sale restrictions be clearly communicated to the buyer at the time of sale, *id.*, App. 62a-63a, further safeguards both the initial purchaser and any downstream resellers or consumers from unwittingly entering into transactions that carry a risk of patent infringement liability, without having received fair notice.

Last, even if there are public policy concerns (at least theoretical ones) that could militate for the application of exhaustion to conditional sales, they bump up against the powerful countervailing interest in avoiding the disruption of markets that have been relying on this settled law for decades. *See, e.g.*, *Randall v. Sorrell*, 548 U.S. 230, 243-44 (2006) ("The Court has often recognized the 'fundamental importance' of *stare decisis*, the basic legal principle that commands judicial respect for a court's earlier decisions and the rules of law they embody . . . . *Stare Decisis* thereby avoid the instability and unfairness that accompany disruption of settled legal expectations."). Indeed, just two years ago, this Court held in *Kimble* that, in cases involving "property (patents) and contracts (licensing agreements) . . . considerations favoring *stare decisis* are '*at their acme*' . . . because parties are especially likely to rely on such precedents when ordering their affairs."*Kimble*, 135 S. Ct. at 2410 (emphasis added) (quoting *Payne v. Tennessee*, 501 U.S. 808, 828, 111 S. Ct. 2597, 115 L. Ed. 2d 720 (1991)).

In *Kimble*, this Court also noted that considerations in favor of upholding settled precedent are especially strong when courts interpret a federal statute (as opposed to the Constitution), because "critics of [a judicial] ruling

[interpreting a statute] can take their objections across the street, and Congress can correct any mistake it sees."*Kimble*, 135 S. Ct. at 2409; *see also id.* ("an argument that we got something wrong—even a good argument to that effect—cannot by itself justify scrapping settled precedent"); *accord, e.g.*, *Watson v. United States*, 552 U.S. 74, 82-83, 128 S. Ct. 579, 169 L. Ed. 2d 472 (2007) (noting that "long congressional acquiescence"—in that case, fourteen years, less than *Mallinckrodt*'s twenty-five years—"enhance[s] even the usual precedential force we accord to our interpretations of statutes"(internal quotations and citations omitted)). That Congress has taken no action in response to *Mallinckrodt*—or the many earlier decisions of this Court discussing conditional sales—is telling and counsels still further against destabilizing worldwide product and licensing markets stretching across industries.

It is also worth noting that these settled practices are not without benefit to the consumer. For example, the majority notes below that differential pricing can assist consumers by offering lower prices, in circumstances in which they only require a single use or are not engaged in resale. Conditional sales also allow patentees to control product modifications or resales that could harm their reputation or business, or potentially even result in harm to the end user—as in the case of certain medical device sales and the like. App., 60a-61a. Destabilizing substantial existing business practices and market expectations will create chaos and inconsistency, which is a potential "horrible"of its own that strongly militates against overturning *Mallinckrodt* and the other longstanding precedent discussed above.

CONCLUSION

For the reasons set forth above, the Court should reaffirm the rule announced in *Mallinckrodt* that otherwise lawful, valid conditions on the resale or reuse of a patented item, clearly communicated at the time of sale, do not give rise to patent exhaustion when the conditions are not followed.

DATED: February 22, 2017

Respectfully submitted,

WALTER E. HANLEY, JR.
President
NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION
ANDREWS KURTH KENYON LLP
One Broadway
New York, New York 10004
(212) 425-7200

CHARLES R. MACEDO
DAVID P. GOLDBERG
CO-CHAIR, COMMITTEE ON AMICUS BRIEFS, NYIPLA
AMSTER, ROTHSTEIN & EBENSTEIN LLP
90 Park Avenue
New York, New York 10016
(212) 336-8000

NOAH M. LEIBOWITZ
Counsel of Record
JONATHAN C. SANDERS
SIMPSON THACHER & BARTLETT LLP
425 Lexington Avenue
New York, New York 10017
(212) 455-2000
nleibowitz@stblaw.com

ROBERT J. RANDO
THE RANDO LAW FIRM P.C.
6800 Jericho Turnpike, Suite 120W
Syosset, New York 11791
(516) 799-9800

MICHAEL KEENAN
HINMAN, HOWARD & KATTELL, LLP
80 Exchange Street
Binghamton, New York 13902
(607) 231-6927
Attorneys for Amicus Curiae